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# Enterprise zones: key to renewal?

**Chester Smolski**

"We must free enterprise to save America" via an "experimental effort to improve and develop our depressed urban areas" President Ronald Reagan said in his State of the Union address.

This expectation that free enterprise can solve urban social and economic problems, including high crime rates, poor schools, inadequate services, deteriorating infrastructures, declining tax bases and bankrupt cities has been heavily criticized. Most recently, this criticism came from several speakers at the *Providence Journal-Brown University Public Affairs Conference* held earlier this month.

Seven of the nine conference speakers referred to a method that the administration suggested last spring with which to attack inner city problems — the "enterprise zone." The importance of the EZ was noted by William Raspberry, *Washington Post* columnist, who claimed that "the enterprise zone is the only thing coming out of the Reagan administration to help cities."

Is the EZ concept as good as its advocates claim? Can the EZ be accomplished only with federal direction? Do we have any answers from others that have tried this experiment?

The concept was applied for the first time in 1950 when Operation Bootstrap was signed into law by President Truman. Specifically aimed at Puerto Rico to counteract high unemployment and to generate new jobs, the program treated the island as a free enterprise trade zone with substantial tax advantages to firms relocating there. According to Edward Humberger, community development consultant, "economic growth was substantial; in terms of long-term development it was a failure." Today, with two-thirds of the population on food stamps and unemployment near one-fourth of the labor force, Operation Bootstrap is not a success.

More recently in Britain, Peter Hall, geographer at the University of Reading and now of the University of California, first proposed

the enterprise zone idea in 1977. By 1980 the government announced the creation of 11 EZs. After a year of operation, "Most are a success but in a somewhat limited way," writes Peter Watson in the *New York Times*.

Averaging 250 acres, the EZs are sited in derelict areas, near harbors or expressways but without housing. (This differs from what is proposed in Rhode Island where these zones would be located in declining neighborhoods with their own stock of housing.) Industries that moved to these zones to take advantage of financial incentives generally have needed land rather than labor. Additionally, the more successful EZs have required land preparation, including roads and sewers.

In early October, Connecticut became the first state to adopt a statewide program, designating EZs in six cities. In early December the nation's first EZ opened in Norwalk on a 500 acre site which includes parts of the waterfront, historic district, and commercial, residential and industrial areas. This program uses only state and local funds since federal help was not available at this time.

The proposed federal program requires states to pass enabling legislation, as Rhode Island has done, in order to become eligible for federal designation as an EZ. A total of 75 will be selected over a three year period, 25 each year, from the more than 2,000 cities, rural areas and Indian reservations that will qualify on the basis of high unemployment, poverty and population loss. The small number to be selected indicates the experimental nature of the program.

According to HUD Secretary Pierce, congressional approval of the program likely will come in the spring. Federal incentives will cost \$310 million annually, primarily through lost tax revenues. They might create new jobs, but communities in Rhode Island and elsewhere that qualify will want to consider carefully their own financial responsibilities and potential results of EZ designation.

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